APRIL 1992
SECTION ONE
OF TWO SECTIONS

INCENTIVE

MANAGING AND MARKETING THROUGH MOTIVATION

THE SECRET OF PORTLAND

WHAT COMPANIES CAN LEARN FROM OREGON'S CITY OF QUALITY

EXECUTIVE REPORT CARD:
LOW MARKS FOR MOTIVATION

DEALING A WINNING HAND
THREE GREAT TRADE PROMOTIONS

FROM UNDERDOG TO TOP DOG
A SALES MANAGER'S SUCCESS STORY

PREVIEW: NY INCENTIVE SHOW

A BILL PUBLICATION

88TH YEAR, VOL. 166, NO. 4 APRIL 1992

INCENTIVE

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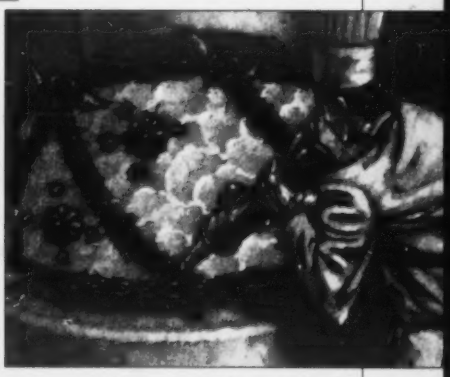

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How to Run an Incentive Travel Campaign

Cover photo by ©1992 Mike Epstein

INCENTIVE helps companies become more productive and improve the quality of their work by motivating employees to work more effectively and customers at all levels to buy. Our stories demonstrate the benefits of integrating internal motivation programs and external marketing efforts.

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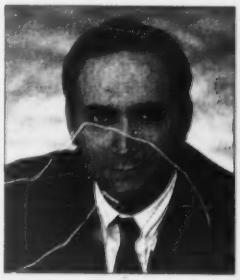
FROM THE EDITOR

NOT MAKING THE GRADE

BY TODD ENGLANDER



The scores from our first-ever Incentive Final Exam are in, and they're not pretty. For more in-depth results, see "How Smart are American Executives?" on page 49, but for now, it's enough to note that of the 600 CEO's and sales and marketing VP's who decided to test their knowledge:

- two out of five can't distinguish between closed-ended and open-ended incentive programs;
- slightly more than half (52.7 percent) are familiar with modern measurement techniques to gauge non-sales performance;
- a good portion (30.9 percent) aren't familiar with basic awards-selection strategies, and
- a majority, 61.2 percent, flat-out flunked the exam.

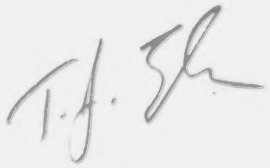
To qualify things a bit, this unique exam didn't measure test-takers' vision, charisma, ethics, compassion, product knowledge and all the other traits and factors that figure into motivational wizardry. And the results obviously can't speak against any successes their companies have experienced in recent incentive programs.

Also on the plus side, an overwhelming number of executives did put themselves on the line and decided to measure themselves against other corporate motivators—an act that demonstrates a strong need to see just how they measure up in the realm of formal, scientific motivational practices.

But the test results still send a troubling message: that many executives may be relying more on the intangible forces of corporate culture and individual leadership—rather than on proven, rock-solid processes—to guide their incentive programs. Actually, it's a combination of both, but corporate leaders can ill afford to ignore the golden rule of motivation: Great performance—unmeasured and unrewarded—is likely to go unrepeated. And the only way to properly measure and reward is to equip oneself with the tools—the theories, equations and structures—that form the foundation of every type of motivational effort, big and small.

The editors of **Incentive** will continue to cover the latest trends in motivation (i.e., nominal group practices, quality-oriented sales measurements, "enriching" travel and merchandise awards), but we'll always ally ourselves with efforts to educate people about the basics of incentive-program planning. See Part II of this issue, "How to Run an Incentive Travel Campaign"; see future special advertiser-sponsored inserts that will cover the basics and essentials of program planning; attend the various seminars run by the magazine in conjunction with advertisers.

And finally, get ready to take the Second Annual Incentive Final Exam; you've got a year to prepare.



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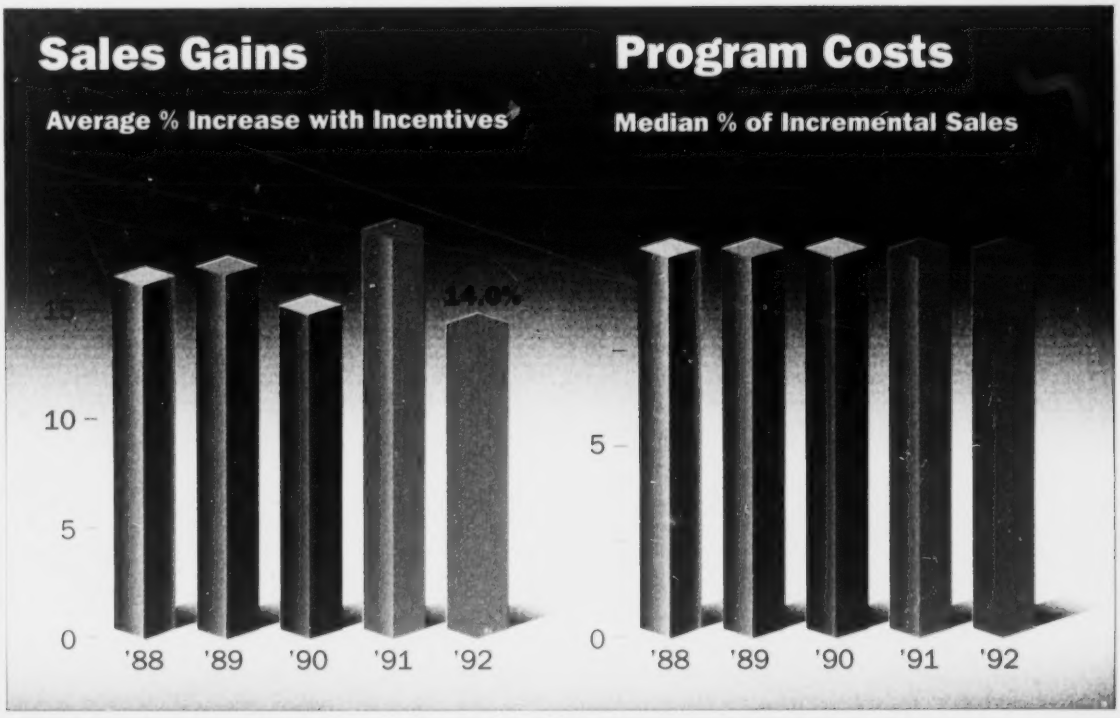


FACTS SURVEY: DEALER INCENTIVES

Dealer programs remain popular, but the recession hinders their effectiveness.

Corporate users of dealer incentive programs report mixed results from the past, recession-plagued year. While the percentage of dealer participation has remained constant—as have costs—sales increases generated by the programs are reaching their lowest ebb in years.

Respondents to **Incentive**'s latest survey of dealer-program users report an average sales increase of 14 percent. Even in the recession year of 1982, dealer programs yielded higher growth: 14.3 percent. Though the average had dropped as low as 14.8 in 1990, it had bounced back to 18.3 percent in last year's study.

Overall participation in programs was reported at almost exactly the same level as last year, though the distribution of incentive prizes has shifted. The average percentage of eligible participants accepting merchandise prizes rose a bit to 58 percent, up from 54 percent last year. But the percentage of dealers winning travel awards has

INCENTIVE MARKETING

declined from 52 in 1991 to 49 now. The trend reflects, in part, a reduction in travel programs because of the recession.

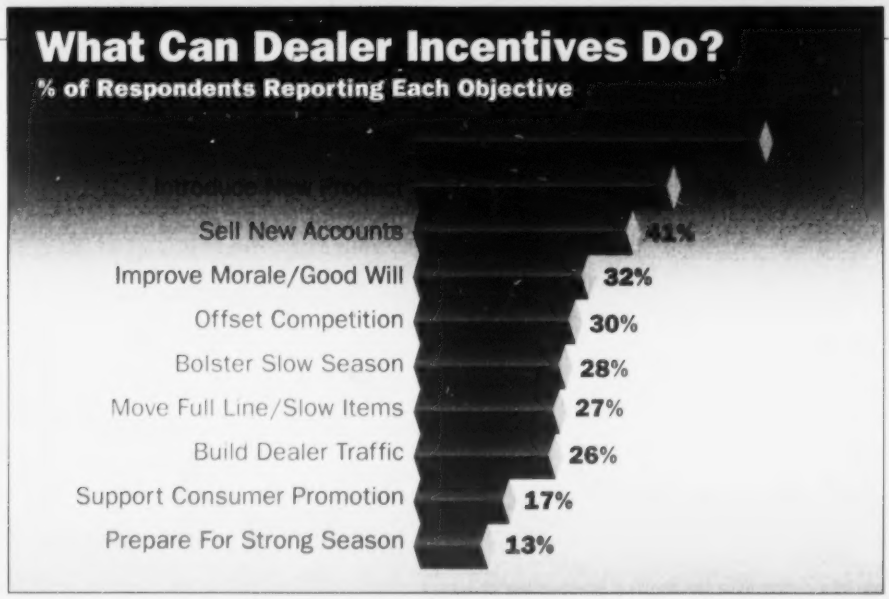
As a share of incremental sales, program costs have remained stable, although there are signs that these costs are increasing. The median is holding at 10 percent of incremental sales for the sixth straight year. However, the average program cost has jumped from a 1991 level of 12 percent of increased sales to a new high of 17 percent—indicating that a minority of program users are paying considerably more for dealer incentives than are most users.

The recession's impact. As the economy continued its slide, many respondents claim they used dealer programs to counter its effects. "The current recession has affected my sales downward," says Henry Cullinane, vice president of Clover Corporation, an East Hartford, Conn., heating-equipment wholesaler. "This has reduced my purchasing power, reducing my inventory. Dealer promotions will continue at the same level and may even increase to promote new accounts and provide better service to existing dealers during a competitive time."

Dealer programs yielded an average sales increase of 14 percent, down from 18.3 percent in last year's study.

An East Coast building materials marketer, who reports an increased use of promotions, says he experienced 10- to 12-percent sales gains in his campaigns last year. He plans to boost his incentive budget by 50 percent this year.

Some companies, however, don't have the option of increasing their spending. "The recession has forced me to be more creative with a smaller budget, but field the same, if not better, results from our dealers," says Vince Jackson, merchandising


What Can Dealer Incentives Do?
% of Respondents Reporting Each Objective
Introduce New Product
Sell New Accounts 41%
Improve Morale/Good Will 32%
Offset Competition 30%
Bolster Slow Season 28%
Move Full Line/Slow Items 27%
Build Dealer Traffic 26%
Support Consumer Promotion 17%
Prepare For Strong Season 13%

manager of Onan Corporation, a Minneapolis-based machinery producer. And a Southern wholesaler with a travel-only program notes that "declining profit margins make it harder to afford programs. That drives up the dollar figure for the dealer to enter, so fewer can qualify."

Generally, the surveyed executives plan to expand their use of trade incentives a bit more than they did in 1991. Last year, the use of merchandise incentives in both sales and dealer programs rose 3.4 percent from the year before; travel expenditures increased an estimated 2.9 percent. This year, the 192 surveyed users expect to increase their total budgets for merchandise at the rate of 6.6 percent, and for travel at 1.5 percent. A number of these marketers specifically pointed out that they are shifting toward more merchandise and less travel because of the recession.

The frequency of programs also reflects a slight shift away from the use of travel prizes; the median is now four dealer promotions per company, compared with three a year ago. This is a logical change—merchandise campaigns are often much shorter than those offering trips.

Marketers are spreading their trade promotion dollars more evenly along the channels of distribution. The surveyed users spend 66 percent of their trade promotion dollars on dealer programs, with the other 34 percent going to sales incentives. This shows much more diversity in approach than in the 1991 survey group, which reported an 81/19 percent split in favor of dealer expenditures. It seems likely that more users add new sales-force incentives to support dealer promotions in a recession year, when broad-based motivation is needed.

Their dealer promotions are aimed at a range of middlemen: wholesalers and distributors as well as many retailer categories. Wholesalers and distributors make up the largest single target; 49 percent of programs are aimed at them. The percentages of programs geared to the remaining middlemen break down as follows:

Commercial/ industrial dealers	22%
Specialty stores	18%
Service contractors	14%
Retail grocers	11%
Drug stores	11%
Variety/department stores	10%
Service stations	4%
Others	22%

The total far exceeds 100 percent, reflecting that these users aim their promotions at an average of 1.6 different audiences.

Finding their focus. Most often, surveyed marketers concentrate their incentive efforts behind a

CONTINUED ON PAGE 90

EMPLOYEE
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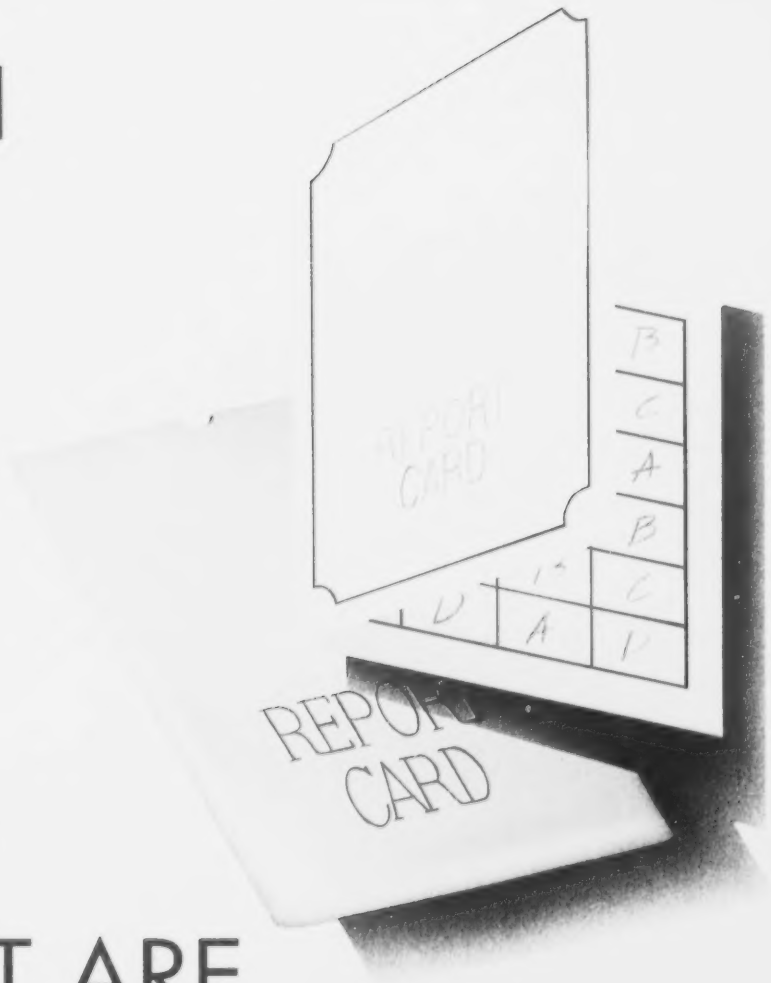

HOW SMART ARE **AMERICAN EXECUTIVES?**

When it comes to knowing how to run incentive programs, corporate leaders barely make the grade.

BY TODD ENGLANDER

They represented the highest echelon of corporate America: CEO's of major manufacturers, VP's of marketing and sales, incentive-company executives. In all, 595 of them took **Incentive**'s first annual Final Exam, a multiple-choice test checking their acumen on all facets of incentive-program planning and strategy. So how did they do?

Sixty-one percent failed, hitting a score of less than 70 percent.

Only one person "aced" this difficult exam, notching 23 of 24 correct answers. Nobody was perfect—that is, except for the two executives who scored a perfect zero: Expect those companies to be out of business by the end of the year.

What do these numbers mean? That corporate America is just beginning to understand the nitty-gritties of running incentive programs—and that theoretical issues of basic strategy, measurement, budgeting, promoting and awards selection are only vaguely understood. This certainly is no indication of the test-takers' motivational prowess, or of their firms' ultimate incentive-program successes, and it certainly is no reflection of the basic intelligence of executives.

Illustration: Jose Yee

In fact, **Incentive**'s FACTS surveys give executives a good excuse for their poor performance: While 92 percent of top executives are the ones who do the final approving and buying of incentive programs and awards, most of them claim they get to spend a mere 10 percent of their time motivating the troops.

Still, nearly 600 executives did take the time to take the exam and vie for awards (see box, page 94), and a closer look at the numbers reveals where their knowledge is both strong and lacking—especially lacking—and where some definite improvements are needed.

Not measuring up. Issues of program measurement—for one—remain very weak. In three questions gauging measurement strategies and theory—taking into account more than 1,700 total responses in this area—our executives scored a low 52.7 percent. Considering the growth of non-sales employee programs (nearly 22 percent of all companies have them, according to the latest FACTS survey), this apparent ignorance of new and proven measurement practices—such as nominal group techniques and quality-oriented measurements—will definitely hinder their effective use at many firms.

In fact, the test's lowest-scoring questions were those dealing with measurement; for instance, Question 10 asked, "Which would *not* be a good productivity or quality measurement in a factory incentive?" The choices: A) Number of defective parts per thousand; B) Number of accidents at work, per team; C) Number of suggestions per team; and D) Number of suggestions per team accepted by management. The correct answer was C, since the *number* of suggestions hardly gauges good performance. It certainly measures prolific suggestion-making, but it doesn't measure how thoughtful, researched or appropriate they are. The other measurements all specifically relate to quality and productivity. Only 36 percent of executives got this one right.

CORPORATE REPORT CARD

(Percentage of executives making the grade)

GRADE	PCT.
A	.2%
B	3.1%
C	11.8%
D	23.7%
F	61.2%

Note: A=93-100, B=84-89, C=77-83, D=70-76.

Executives scored slightly higher when it came to selecting effective awards. Sixty-nine percent answered correctly on the six questions covering awards policies—e.g., Question 2: "What percentage of sales- and employee-program participants should win awards?" Correct answer: D) 40 percent. **Incentive**'s FACTS surveys indicate that as the average.

Basic incentive strategies—as measured in a question asking for opinions on motivating "average achievers," and another one that asked for a prediction of results of one company's specific program—represented a strong point in the test results. Executives notched their highest scores here: 83.1 percent.

Communication breakdown. Less lofty was the score posted for the test's three questions covering promotion and communication. Sixty-eight percent marked correct responses in this area. For example, one question asked about the goal of a good campaign theme. The correct answer was C) incite action, while the other answers suggested "relate to last year's theme," "specify all objectives" or "convey a problem."

Executives also need more education about program structure—the part of the program that deals with shaping the rules. The rules, of course, must reflect the objectives, and this critical tie seemed to be missed by executives answering the five "structural" questions that registered a meager 54.7-percent score. A respectable 78.7 percent answered Question 4 correctly—"Which of these negatively affect performance during a program?" A) Frequent awards; B) Training; C) Numerous goals; and D) Team-oriented goals. The answer is C—too many goals can muddle the focus of the program in participants' minds. Despite the relatively high score for this question,

HOW THEY SCORED

(Correct responses, by category)

CATEGORY	SCORE
Basic Strategy	83.1%
Awards Strategies	69.1%
Promotion/Communication	68.7%
Objective-Setting	61.6%
Program Structure	54.7%
Measurement	52.7%
Budgeting	44.8%

test-takers scored a low 62.6 percent and 55.4 percent on two questions distinguishing between the merits of open- and closed-ended programs.

That's especially scary considering the one question, Number 3, which simply asked, "Which is the best example of an open-ended program rule?" Only three out of every five executives chose the right answer, proving that an alarming 40 percent of corporate executives are unable to distinguish between the most basic of incentive-program constructions: open- and closed-ended structures.

The answers. Following are the correct responses to the exam, along with some comments.

1) Which would serve as the best-stated objective of a sales incentive campaign? C) Sell 28 more widget parts in the first quarter of 1992.

This objective spelled out: the desired activity (selling), the measured items or behaviors (widget parts) and the specific time frame. The other choices—sell more widget parts; sell 28 more widget parts as soon as possible—fell short of this one.

2) In general, in sales and employee incentive campaigns, what percentage of participants should win an award? D) 40 percent.

In one question, 40 percent of executives couldn't distinguish between a closed- and open-ended program rule.

Incentive's FACTS surveys establish this (actually, it's 41 percent) as the average.

3) Which is the best example of an *open-ended program* rule? B) All people who hit 90 percent of quota receive the award.

Open-ended programs allow all who hit the mark to win the award. Closed-ended ones shut the door after a specified number or percentage of achievers win.

4) Which of these can *negatively* affect performance during an incentive program? C) Numerous goals.

The experts claim that a "family of measures" is OK, so long as there are no more than three or four and that they all work together. It is better to stick to a few, clearly spelled-out objectives. The other answers—frequent awards; training; and team-oriented goals—all represent positive elements in a well-sculpted program.

Questions 5 through 8 covered the strategies of the ABC Toy Company, which sought to motivate its "average performers."

5) What would be a good, econom-

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ic awards strategy to help propel middle achievers during ABC's 12-month-long program? C) Offer various, smaller monthly and quarterly awards in addition to the large end-of-program prizes.

6) What kind of program structure would give ABC's "average achievers" a better chance of winning? The answer was D) All of the above.

The other choices here were: a "tiered" structure; an open-ended program; and a six-month-long program.

7) What is your opinion about ABC's plan to focus more on middle achievers? C) It could increase sales from all types of achievers.

More and more companies are targeting the middle 60 percent of their work force, not just the top 20 percent who produce anywhere from 40 to 80 percent of sales. The idea is that top performers will always be motivated, and that any increase in this large middle segment will significantly affect the bottom line.

Questions 8 through 11 focused on ABC's efforts to motivate productivity and quality in its factories.

8) To arrive at final program measurements, management should: C) Let small focus groups of workers suggest a list of all possible measurements, then have management decide on the top ones.

This is a practice dubbed the "nominal group technique," when companies bring in an outside facilitator to solicit potential measurements from a small group that represents a cross-section of the target audience.

9) ABC wants to motivate all workers to work as effectively as possible during the incentive program. Which of these would *not* be a wise program rule (and award)? C) Closed-ended program ("the top 10 percent of all workers win"), and the prize is a grand travel award.

There's nothing wrong with a grand travel award as the prize. In many cases, however, there is something wrong with restricting it to only the elite. Also, in a factory setting, it would not be productive to take a large group of the work force away from the plant for a week.

10) Which would *not* be a good productivity or quality measurement for ABC's factory incentive? C) Number of suggestions per team.

You need to gauge the *quality* of the suggestions, not how many there are.

11) If ABC's incentive program proves successful, what will be the most observable net effect? C) Measurable improvements in the desired, targeted "behaviors."

With clearly proclaimed goals and well-founded measurements, this should always be the case.

12) What is a major strategic *disadvantage* of using cash as an incentive award? C) It confuses compensation and recognition in the minds of recipients.

13) Letting participants help set

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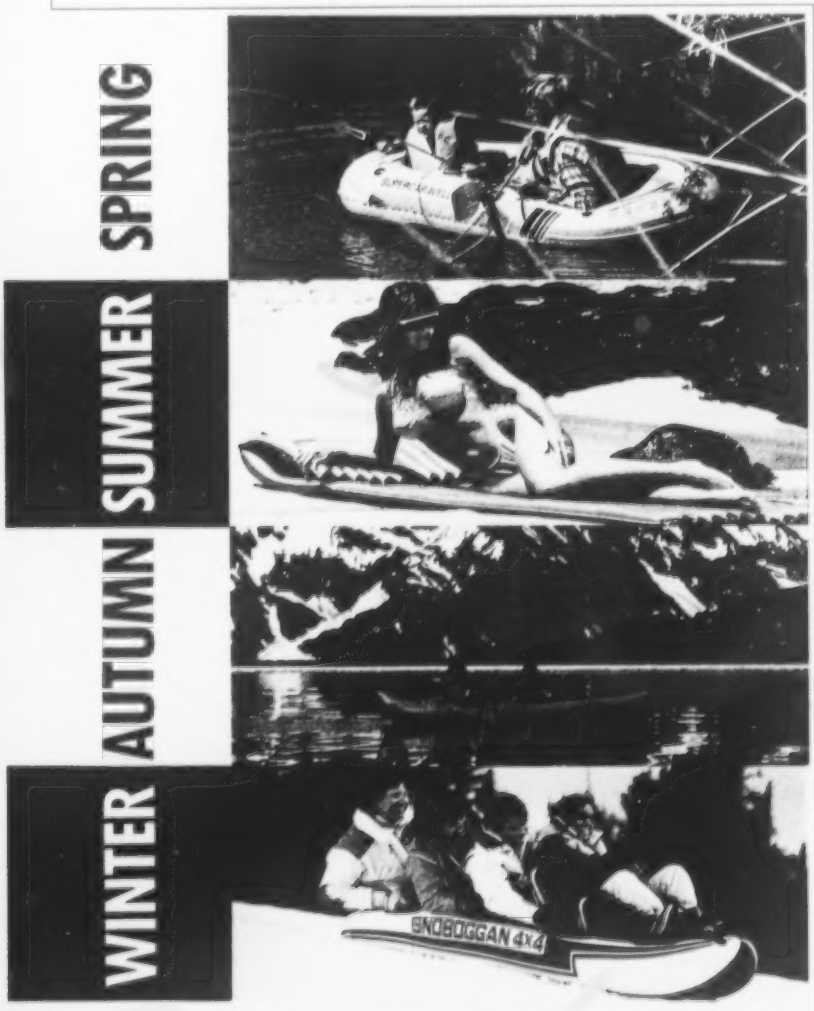

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CONTINUED FROM PAGE 40

selected line or product group to serve a defined selling objective. About 52 percent apply their promotions in this way. At the extremes are the 38 percent who put their promotional efforts behind their full lines, and a select 10 percent who focus on single items. A much larger share of companies chose the full-line option this year—up from 27 percent a year ago. Many users find they need help across the board, rather than in narrow product areas.

Increasing volume. Such an approach reflects an effort to increase overall sales volume; indeed, 67 percent of respondents cited this as their principal objective for running dealer programs, compared with 65 percent last year. Users also cited "offsetting competition" and "bolstering a slow season" as program objectives more frequently than they did last year. Every other objective on a list of 10 possibilities declined somewhat—notably, "introducing new products," which fell from 58 percent last year to 49 percent now. "Sell new accounts" also dropped in importance, from 45 percent to 41.

While objectives may have changed, the length of time planning promotions has remained constant. Users take an average of 15 weeks to plan a merchandise campaign and 28 weeks to set up a travel program—exactly the same as in 1991.

The amount of money budgeted to promote dealer incentives hasn't changed much, either. It now averages 22 percent of total program cost, which is down one point from last year. The remaining 78 percent of the total is reserved for the purchase of either merchandise or travel awards.

Keeping costs constant. Users have held the line rather well this year on the cost of those purchases—helped, no doubt, by relatively low inflation in the past 12 months. The average unit cost of merchandise has increased to $375, up from $295, but the more important median expenditure has declined from $125 a year ago to just $100 now.

In travel expenditures, both the average and the median have dropped. Last year, the average user spent $2,656 per winner (whether for one or two persons), with a median of $2,100. In the current survey, the average has fallen to $2,244 and the median to $1,850. There has been a similar drop in the actual ticket price, or cost per person. The average has decreased to $1,373, from last year's $1,658. The median shows a steeper decline from $1,700 to only $1,200 among this year's group of users.

Measures of success. How do users gauge the success of an incentive program? The survey offered five choices, with the simple tallying of dealer orders rated the most popular measure—favored by 52 percent of respondents, down from 62 percent last year. Sales-force reports finished second with 39 percent, five points higher than in 1991. Thirty-three percent of respondents measure success based on factory shipments, compared with 31 percent last year. Fewer respondents evaluate their programs based on the number of new accounts than did last year: 31 percent do now, eight points below the previous study. A small minority of marketers—8 percent—uses store audits as their yardstick. □

Award Particulars

Type of award most often used as dealer incentive:	
Own merchandise catalogue or selection	54%
Individual travel	40%
Group travel	37%
Single premium or few related items	35%
Merchandise from incentive firm's catalogue	20%
Type of merchandise considered most effective:	
Home or family items	47%
Personal items	45%
Business-use items	22%
How merchandise premiums are delivered:	
Shipped separately	62%
Delivered by sales force	39%
Packaged with product	5%
Type of supplier generally used:	
Merchandise awards	
Direct from manufacturer	47%
Wholesaler or premium jobber	46%
Full-service incentive firm	32%
Manufacturers' rep	28%
Travel Awards	
Travel Agent	57%
Full-service incentive firm	35%
Travel carrier or hotel	22%
Travel wholesaler	15%

INCENTIVE TEST

CONTINUED FROM PAGE 52

the objectives for an incentive program will: B) Provide an indicator of key measurements.

It will not, as the other answers suggest, stir suspicions among the work force or take away management's "ownership" of a program; in fact, it will increase participants' sense of ownership of the program, thus enhancing motivation.

14) What is the "nominal group technique"? C) A meeting where a small group of would-be incentive-program participants offer potential measurements for a program.

15) What portion of sales gains do companies most often spend on their incentive programs? B) 5-10 percent.

The same numbers apply for the portion of productivity and quality gains that should be plowed back into work-force awards.

16) What is a "family of measures"? B) A series of complementary measurements devised specifically to gauge the success of an incentive program.

17) In general, incentive-program awards should: C) Have lasting value.

18) Which do *not* qualify as incentive awards? D) A raise and a promotion.

Because incentive programs reward specific achievement with specific awards, these two can't qualify; they fall more in the realm of compensation.

19) What is a "tiered" incentive-award structure? A) One that mixes merchandise and travel awards, with award levels based on participants' performance.

20) Which groups *can't* be measured in an incentive campaign? D) All of the above can be measured.

The "above," in this case, included: dealers; salespeople and field reps; secretaries and plant workers.

21) In general, at what percent of quota should salespeople begin qualifying for awards? C) 90 percent.

Incentive's annual FACTS survey shows that most companies start offering awards to salespeople when they hit 93 percent of quota. The big awards kick in at 117 percent of quota.

22) Incentive program themes (or slogans) should always: C) Incite action.

23) Promotion should make up what percentage of an incentive program budget? C) 20 percent.

24) A standings mailer should include a participant's name, numerical goal, percent-of-goal attained and: A) A special, motivational message.

THE WINNERS

The following winners were chosen from a drawing of the **Incentive** Final Exam's top scorers:

Three-night Select Level Award from Marriott Corporation (Value—$600): John Crawford, manager of sales promotion and special events, Metromedia Communications Corporation.

Chinon Genesis III Bridge Camera Outfit ($500): Steve Thompson, vice president marketing, Erie Insurance Group.

$250 in American Express Gift Cheques: Colleen Turner, account executive, Casto Travel.

$50 in American Express Gift Cheques: Henry Berszinn, Responsive Selling Systems; Thomas Linton, Sears Contract Sales; William Stiles, 3M; Stewart Dougherty, MCI Telecommunications Corporation; Roy Baum, Maritz Motivation Company.

Business books from Warner Books: Richard Kut, Performance Marketing; Charles Smith, Anritsu Wiltron Sales Company; Bob Klenn, United Airlines; Jacquelyn Freedman, Red Devil Inc.; Randy Renz, Maritz Motivation; Wesley Richmond, The Art Affaire Inc.; Brett Behrends, Quaker Oats Company; Richard Austin, Maritz Motivation; Tony Hendrix, Georgia Pacific Corporation; Greg Thomas, American General Finance.

XEROX

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plan, we don't get any bonus at all—it doesn't matter how profitable the district is. Now, we even have to pay the company back: We don't actually write them a check but the 20 percent is held against any future bonuses. Talk about getting serious about customer satisfaction!"

The three managers' front-line staffs are also tied in to the district's profitability and CSMS numbers, although they risk a smaller portion (4 percent) of their salary. In addition, all incentive programs, whether on a national or a district level, carry a customer satisfaction qualifier. "We hold the sales reps totally accountable for customer satisfaction," explains district customer service manager Tom Haywood. "That's a big change in the last five or six years; previously the measurement was solely the revenue they produced."

The message that empowerment carries responsibility fits well with Pacetta's business philosophy: "I want to build consequence into management; I think that's been missing from American business," says Pacetta. "People here know that their territory must 'pay the rent' towards the entire district. When we don't do the job, we hold people responsible—and that includes me."

Is the Pacetta story reproducible in other companies, other areas? He has a lot of support from Xerox management, with built-in structures that feed and test customer satisfaction, employee motivation and the continuing quest for quality. Cleveland's vendor-of-choice status lets him run risks that other, more cautious managers might avoid. The company has a formal benchmarking system that lets him learn from the successes of others. Pacetta is also lucky in that his co-managers share his devotion to the dual goals of quality and profitability. All these factors set the stage for success, and are indeed indispensable. But Pacetta's combination of gung-ho cheerleading and hard-nosed salesmanship are unique. Perhaps Kinnaird puts it best: "He's one of a kind, and fortunately, one of the good kind."